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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [FR](#)
SUBJECT: FRENCH GDP GROWTH SURGED IN Q-2

REF: PARIS 4417

11. SUMMARY. GDP increased 4.5-4.9 percent in Q-2, mostly due to strong growth in domestic consumption and exports. The GOF indicated that GDP growth was running at a 3 percent pace at the end of the first semester, but officials are unlikely to revise upwards their 2006 GDP growth forecast beyond the current 2.0-2.5 percent. 2007 GDP growth forecasts are expected to stay in the range of 2.0-2.5 percent due fears of high oil prices, a strong euro, and a U.S. economic slowdown. End summary.

GDP Increased 4.5-4.9 Percent in Q-2

12. Based on the National Statistical Agency's (INSEE) flash estimate, GDP (seasonally adjusted and workday related) increased 4.5-4.9 percent annualized in Q-2 compared with 2.0 percent in Q-1, the fastest pace since the fourth quarter of 2000.

13. Household consumption continued to stoke the economy in Q-2 (reftel). Corporate growth may have contributed to Q-2 growth as the production of capital goods recovered, but strong foreign demand provided significant support as well. Exports peaked at a high of 194.4 billion euros in the first semester. In an interview appearing in the newspaper France Soir, Foreign Trade Minister Christine Lagarde commented on France's "excellent export figures," specifically citing the U.S. as France's number one trading partner outside of Europe. A detailed report on Q-2 GDP growth will be published by INSEE on August 22.

Government Trumpets Good News. . .

15. Finance Minister Thierry Breton proclaimed INSEE's Q-2 GDP growth data was "exceptional," and pointed out that it was much better than the forecasts of 2.4 and 2.8 percent originally predicted by the Bank of France and private economists, respectively. Breton confirmed that GDP growth was running at a 3.0 percent annualized growth rate as of the end of the first semester of 2006.

16. Breton also said that other economic indicators, including business and household confidence, showed the French economy is doing much better. The unemployment rate decreased to 9.0 percent in June - much earlier than expected. Despite oil price increases, inflation remained moderate. Consumer prices actually decreased 0.2 percent in July compared to June, but were up 1.9 percent compared with July 2005.

. . . But Remains Cautious

16. Breton is confident that 2006 GDP growth will be higher than the

official 2.0-2.5 percent estimate, but did not announce an upward revision as "life has taught us to be cautious." In preparing the 2007 economic forecasts, Finance Ministry specialists are considering higher oil prices (USD 75-100 per barrel versus USD 63 in 2006), a euro close to 1.30 USD, and lower economic growth in the U.S., which could ultimately have a significant impact on European economies. They are also taking into account the implementation of VAT increases in Germany in 2007, which could also harm the French foreign trade (reftel).

Comment

¶7. The growth registered in Q-2 means the government will meet its 2006 GDP growth forecast. However, consumption is likely to slow in the second semester, since the effect of the Soccer World Cup will be long over by then. The recovery of consumer spending in Germany and Italy, France's main trading partners, remains fragile and raises doubts about the continued growth of French exports. Rising interest rates, higher oil prices and the crisis in the Middle East do not bode well for the French economy. The government is likely to stick to the same "cautious" GDP growth estimates of 2.0-2.5 percent in 2007, a range Breton hinted at earlier this year.

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